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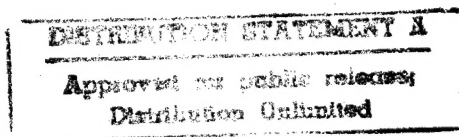
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12 July 1982

LATIN AMERICA REPORT

No. 2535

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DETAILS OF GASOLINE REFINING CAPACITY SHORTAGE

Mexico City PROCESO in Spanish 31 May 82 pp 24-25

[Article by Pablo Hiriart: "The Maya Crude: Cause of the Gasoline Shortage"]

[Text] Salamanca--For 45 days (from the end of March until the beginning of May), the refinery in this town failed to produce 130,325,000 liters of gasoline, an amount sufficient to provide for the consumption of automobiles and mass transportation in the Federal District for a week.

The cause: lack of foresight among the Mexican Petroleum [PEMEX] technicians, and abuse on the national market, by increasing the percentage of heavy crude in the Maya-Isthmus mix, which processing towers that had not received any maintenance for over 6 months could hardly assimilate.

In the middle of last March, PEMEX announced that work had started to increase the processing of Maya type heavy crude, for which reason the international market opted to purchase larger quantities of light and superlight oils, to the detriment of the heavy crude (which, to Mexico, represents 55.6 percent of the total volume of oil exports).

For reasons never explained by the parastate company gasoline began to be in short supply throughout the entire country.

At the height of the crisis, on 7 May, Alfredo Mena Alfaro, head of the PEMEX National Union of Dealers, declared: "The supply has been reduced by 40 percent; there is a serious shortage in deliveries." He simply said: "There is no gasoline."

At the time, a rumor was circulating to the effect that the Salamanca refinery had stopped its gasoline production, something denied by Mexican Petroleum.

Engineer Luis Rosado, an official spokesman for the refinery in this town, commented: "Up until now, no group has left for repairs, which has forced us to reduce our number of barrels. Over a month ago, a team left for repairs, but there is nothing remarkable about it. It is like any small pump, which is useful for awhile, and then has to be removed for repairs so that it will operate again."

There is no further information. The general superintendent of the refinery "cannot talk with the press, because he requires instructions and permission from the

officials in Mexico City." And the doors of the refinery, with a total of 4,500 workers (2,5000 of whom are temporary) who cooperate in the processing of 215,000 barrels per day, remain hermetically sealed.

But someone with a green helmet (the badge of the petroleum engineers) opens the door to the colossal mass of pipes and smoke, and guards wearing civilian dress give a cordial greeting, carrying 38-caliber Smith and Wessons hanging from their belts in American style.

Herein lies much of the reason for the gasoline chaos: the FCC plant in the No 1 years. Technicians in charge of the yard accompany the reporter on the tour, and explain: The FCC (catalytic) plant, which loads gas oil from two load-preparing plants, converting it into liquid gas, gasoline, light cycle oil and decanted oil, was seriously damaged 2 months ago, and has been out of operation for 45 days.

In that plant, 35,000 barrels of gasoline are produced daily. It is sent through a polyduct to supply Guadalajara, Aguascalientes, Celaya and Queretaro. In turn, it is supplied with 60,000 barrels of "well oil" type petroleum, coming from Poza Rica, and 180,000 barrels of mix which arrive in Salamanca by way of pumping from Nuevo Teapa.

The technicians add that one of the main reasons for the damage that occurred at the plant is that, "Since they do not want to buy our Maya crude abroad, it has to be dumped into the Isthmus. So, 20 or 30 percent more of the Maya is being injected into the latter, which increases the weight of the crude. Fewer distillates (gasolines) are removed, more residue occurs and the machines work under strain. But some use must be made of the Maya, because it is not being sold."

In this connection, it is fitting to recall that, in its last report, the para-state company gave assurance that, "The experimentation conducted by the Mexican Petroleum Institute and the efficient operation of the secondary processes warrant the claim that, in the future, increasingly larger volumes will be processed."

The other reason for the damage to the plant, according to the Mexican Petroleum technicians, is that it was forced to work more than it should have. They explain that every plant is programed to operate between 100 and 120 days, and then has to be given maintenance. But this was not done.

During the month and a half when the plant was at a standstill, it operated with two cracking plants which processed only 50 percent of the 35,000 barrels sent through the polyduct.

To withstand the shortage in Guadalajara, Celaya, Queretaro and Aguascalientes, Mexican Petroleum found this solution: We had to request aid from the plant in Tula, Hidalgo, in addition to adjusting production," the technicians disclose. In short, the Federal District was deprived of 2,385,000 liters of gasoline (the Federal District is supplied every day by Tula), which were used to fill the gap left by the Salamanca plant in the center of the republic.

2909

CSO: 3010/1746

BRIEFS

OIL WELL DISCOVERY--Caracas, 27 May (AFP)--It was reported here tonight that MENEVEN [expansion unknown], a branch of the Venezuelan Petroleum Corporation, discovered a well that (?produces) 4,178 barrels per day of light crude of (?36) API degrees in the area of the Maracaibo Lake.
[PA311235 Paris AFP in Spanish 0306 GMT 28 May 82 PA]

OIL SALES TO ARGENTINA--Caracas--A Venezuelan trade delegation has left for Buenos Aires to establish bilateral agreements to help Argentina alleviate the effects of the sanctions imposed by the EEC. The agreements will include the daily preferential sale of 1 million barrels of oil.
[Text] [PA081935 Havana International Service in Spanish 0000 GMT 8 Jun 82]

CSO: 3010/1769

FIEL ECONOMIST ON POSTWAR MEASURES

Buenos Aires LA NACION in Spanish 15 June 82 p 12

[Interview with Dr Armando P. Ribas, economist: "Postwar Issues"]

[Text] Dr Armando P. Ribas, an economist with an active role in the FIEL [Latin America Economic Research Foundation], the IMF [International Monetary Fund] and various other public functions in our country and abroad, and currently an adviser to various business enterprises, responds herein to the following questions by LA NACION:

[Question] Argentina's foreign debt was \$7.875 billion in 1975 and \$35.671 billion 6 years later. Yet, Argentine production has remained at zero growth throughout this period. What do you consider to have happened to the almost \$27 billion that were invested during the period and that, as far as one can see, were unable to augment the country's productive capacity?

[Answer] The process of increasing indebtedness followed by the country over the period 1976-1981 was the result of the economic policy it implemented aimed at fighting inflation by way of a fixed exchange rate. That policy ignored the need to gear fiscal policy to monetary exchange policy; the two are not alternative but rather complementary to each other.

The drop in exchange rate determined the rise in foreign expenditures, as was to be expected from any traditional analysis of relative prices. Everything seems to indicate that this expenditure was not in the form of productive investment, since the GDP [Gross Domestic Product] figures show a drop in private investment.

It is possible that part of that expenditure may have gone for war materiel, but even so, this falls far short of explaining the rise in indebtedness. On the other hand, our indebtedness did increase as a result of the rise in interest rates, which rose all the more as the drop in the exchange rate constricted our ability to export.

Also to be considered is the spending abroad by Argentines, the total of which is hard to estimate. The drop in exchange rate brought about travel in order to buy; the normal thing is merely to buy when one travels.

High Business Debt Level

[Question] Various solutions to the business debt problem have been proposed. Which do you recommend?

[Answer] In my view, the relationship between debt and the GDP is inherently a meaningless figure and hence not a valid basis for international comparisons. The problem is to determine the reason for the high debt level. The magnitude of this debt is owing to the existence of market interest rates that are much higher than the economy's average rate of return (private). The latter is what was referred to by Wickse1 as the natural interest rate and by Keynes as the marginal rate of return on capital. Both point up the importance of the ratio between the latter and the market interest rate for economic balance and for investment outlook.

Unfortunately, monetarism has considered interest rates as an instrument for systematic adjustments. In reality, where free interest rates exist, the divergence between the natural interest rate and the market rate is precisely the indicator of an imbalance. That is, with free interest rates, the imbalance occurs not only in today's prices (inflation) but also with respect to time (interest rates).

In short, the problem is not the amount of indebtedness but rather the system's capacity for paying off the debt. And when the real market rate of interest exceeds the natural rate, this payment becomes impossible. The Americans themselves have termed this form of indebtedness "distress borrowing." In this case, a firm borrows not on the basis of its rate of return but because it lacks one.

In my view, as I have insisted on many occasions, the solution, or rather the start toward a solution, must be the conversion of (unpayable) private debt to public debt. This means a capital transfer such as would obviate the need, in the long run, for the state, which is the ultimate creditor of private enterprises and the ultimate debtor of the savers, to nationalize little by little what remains of private enterprises.

The liquidation of liabilities by an inflationary shot in the arm would have an adverse impact on the financial system and could cause a considerable reduction in deposits and hence a reduction in the lending capacities of the system. Furthermore, at the very high levels of inflation we are now supporting, the idea of an inflationary shot in the arm involves the risk of a decontrol and of hyperinflation in the measure in which confidence is totally lost in all financial instruments as a hedge against inflation.

It goes without saying that I cannot understand what ethical dichotomy it is that inspires those who maintain that the conversion of private to public debt is immoral, while at the same time, aware of the problem as they are, they seek to solve it by way of a hyperinflation of those liabilities that risks a monetary collapse.

In my opinion, it is the same dichotomy that makes it possible to continue paying for and consolidating state indebtedness, which is what is occurring with the Banco del Chaco and the BANADE [National Development Bank], while the market, thus skewed, becomes the instrument for destroying the private sector.

Start-Up of Recovery

[Question] The serious shrinkage in economic activity has given rise to proposals for inducing its reactivation through an increase in the money supply, or through wage increases, or through negative interest rates. Which do you advocate?

[Answer] In my opinion, the first step toward economic recovery must necessarily be to resolve business indebtedness. At the same time, to talk of increasing the money supply independently of fiscal policy is an error we must not commit again. There can be no question, under present conditions, of holding to a restrictive monetary policy, in the sense of seeking to maintain the level of public spending while at the same time restricting the money supply.

What I have been saying for a long time has just been agreed upon at Versailles, namely, that the problem is not the deficit but rather the level of public spending. This is particularly true in a situation of "stagflation" (stagnation and inflation) like the one we have had for more than 2 years now.

Negative interest rates as a permanent situation, or even a temporary one, seems hardly a practical approach in the current circumstances, in which the savers are totally lacking monetary incentives.

The idea of resorting to massive wage increases has already proven its inability to resolve the problem of real wages. I think it is necessary first to resolve the capital-account problems of business enterprises, after which, renewed investment by these can get the economy rolling again.

Of course, there must be a restoration of confidence, and this is very difficult in a situation of uncertainty like the one generated by the war. I shall refer to external restrictions in my answer to the next question.

Exports

[Question] Another solution would be based on increasing economic activity by increasing exports. Do you think a devaluation would be necessary?

[Answer] The need to increase exports is unquestionable, and, of course, only a solution of our external imbalance will bring about a recovery of our economic activity. Unfortunately, there are many who think the war will serve to justify the shutting down of the economy and a return to the famous substitution of imports. In my opinion, this would be a mistake, as was a mistake the manner in which it was sought to open up the economy with an increasingly overvalued peso.

Of course, the exchange rate must respond to our export needs. But again, the governing philosophy seems to dictate that the exchange rate must remain fixed to prevent or reduce the inflationary process. This is not my opinion and I think Argentine history shows that this is not a solution but merely a postponement of the imbalance.

Nor do I believe in compensated devaluations, because when devaluations are compensated they are no longer devaluations but merely an accounting trick to pretty up the budgetary deficit.

The Exchange System

[Question] Once the Malvinas conflict has ended, do you think exchange and import controls should be ended?

[Answer] Of course, I have never perceived the virtues of exchange controls. I can see, however, with a sense of uneasiness, that what is increasingly being called a war economy will continue to have its implications after the war is ended.

Under those conditions, consideration could be given to a dual exchange market: A fixed commercial market and a free money market. It is important to not provoke again a retarding of the commercial exchange rate, and for this it will be necessary to establish a real "crawling peg," until the two markets can finally be unified. At that point, we can finally try a genuine floating rate.

At the same time, it will be necessary to deregulate the futures market and let the private investors run the risks involved in estimating and discounting the future. It is truly unbelievable that throughout this so-called liberal period the most conspicuous absence has been that of the futures market both in exchange and in interest rates.

Prices and Wages

[Question] Supposing that you were to advocate a wage increase to stimulate recovery, would you recommend establishing price controls?

[Answer] As I have already said, I do not advocate massive wage increases and, much less so, price controls. If we have already forgotten the damaging results of that policy between 1973 and 1976, let us turn our eyes toward Mexico where that policy is in full operation with the same results.

It is my view that the reactivation of the economy must be addressed on various fronts. Let us not forget the need for real foreign investment in areas as important as oil and gas. At the same time, I am hoping that the end of the war will see a continuation or a start of the program to privatize industry, which also should have a major impact on private investment.

Taxes

[Question] With the end of the war, would you also end the emergency tax increases? What fiscal measures would you recommend?

[Answers] If we are referring to the tax on deposits, this, as I understand it, is not permanent. The gasoline tax should be reevaluated based on real fuel prices, which in Argentina have traditionally been undervalued.

In principle, what I am arguing is that the Argentine tax system needs to be revised so that it does not constitute, as it has until now, one of the most distorting instruments of fiscal policy.

Even in the industrialized countries, including the United States itself, there is under way a considerable growth of what is called the underground economy and the consequent evasion of taxes. This would indicate that Colin Clark was right when he argued that taxation at a level exceeding 25 percent stifles the economy. And this has been pointed out recently by the director general of the IMF, Mr De Larosiere.

When it is observed that a tax such as the VAT [value-added tax] is being evaded to the extent of 50 percent, it is clear that we are confronted with something that cannot other than profoundly distort the allocation of resources within the economy and consequently the entire productive process. This is why I have dared to state on other occasions that the Argentine tax system in its present form can be more distorting than inflation itself.

9238

CSO: 3010/1728

FUTURE OF EXPORT SECTOR DISCUSSED

Buenos Aires LA NACION in Spanish 15 June 82 p 7

[Text] The secretary of commerce, engineer Alberto de las Carreras, spoke yesterday at the inauguration of the First Foreign Trade Reorientation Phase organized by the Argentine Chamber of Commerce. The meeting, which was attended by diplomatic representatives from various countries, was opened by the president of the Chamber, Mr Julio J. Gomez.

The mentioned First Phase, which is scheduled to end on 8 July, will consist of an analysis of the possibilities for increasing our foreign trade. To this effect, today's program calls for a discussion of the prospects for trade with Spain. Tomorrow's session will take up those of trade with Peru, Thursday's those with Japan, Friday's Mexico, then Austria, Czechoslovakia, India and East Germany, in turn, to cite only the countries that have been the first to confirm their participation in the Phase.

Mr Gomez

"Our need to export is so great that we must increase it to the maximum extent possible, even at the temporary price of having to reduce our own consumption," Gomez said, emphasizing also our need for "an import trade that can share in one overall commercial and free exchange market, to which we aspire to return as soon as circumstances permit it, so that the foreign exchange rates can reach a level that, for its part, makes possible the sale of our products abroad."

The president of the Chamber stressed that exportation is "absolutely essential," given the high level of foreign debt, as is also the need to reactivate industry, which is "totally or partly paralyzed, and to restore to our unemployed the joy of working."

Gomez also advocated the institution of "trading companies" to facilitate exportation by those enterprises that cannot engage in it with their own resources.

Engineer de las Carreras

Upon taking the floor, Engineer de las Carreras spoke of the government's decision to "expand, diversify, reorient and enhance Argentine foreign trade," parti-

cularly within the region, since--he noted--"we are convinced that our trade will be more Latin American. Recent events have made it clear that in virtually all the Latin American countries there has been an awakening to the need of intensifying the process of economic integration."

The government official advocated a free currency exchange market and pointed out the need to reopen the economy, which has been affected in the recent past--he said--by the policy of exchange controls.

De las Carreras also alluded to an agreement that is to be concluded this month with five Andean Pact countries and, still with respect to our Latin American role, affirmed that "the Argentine objective is to go beyond these circumstantial measures and put into operation the proposals it made in Montevideo in March."

In this regard, the official pointed out the possibility of establishing a system of preferential regional customs tariffs. De las Carreras also referred to the outlook for trade with Japan, Africa, Eastern Europe, the Arab and Asian countries, as well as with the nations of Western Europe.

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CSO: 3010/1728

NAVY MINISTER DISCUSSES REEQUIPPING OF ARMED FORCES

Naval Power Discussed

Sao Paulo ISTOE in Portuguese 2 Jun 82 pp 96-98

[Interview with Navy Minister Adm Maximiano da Fonseca by Rosalba da Matta Machado: "The Balance of Arms"]

[Text] On the day following the occupation of the Malvinas Islands by the Argentine troops, Navy Minister Adm Maximiano da Fonseca said on television that the Brazilian Navy had to be "at least ten times bigger." The minister, however, did not want this statement to be associated with the confrontation between Argentina and Great Britain which, by the way, triggered a long discussion about the re-equipment of the Armed Forces in Brazil. In the specific case of the Navy, the admiral expressed one reservation, however, that this is an idea which "I advocated already during the speech I made when I took over my new post."

By the same token, the closest advisors in the office of the navy minister avoid any direct comparison between the naval power of Brazil and of Argentina. But one can detect among them the conviction that these countries are in similar stages of development and are geographically very close to each other. This would seem to explain a relationship of equilibrium in terms of military power. It has been confirmed on this aspect that Argentina sounded out Brazil as to the possibility of obtaining Exocet missiles and ASW helicopters from Brazil--although this was done in a rather discreet manner, as required by the handling of military topics.

In the case of the missiles, the country had the MM (sea-to-sea) but not the AM (air-to-sea) missiles which the Argentines were interested in. As for the helicopters, Brazil argued that it did not have them in sufficient quantity for its own use. But the launching, at the Blohm and Voss shipyard in Germany on 17 February, of the Frigate "Heroína"--which joined the Argentine Navy--did not go unnoticed, either. Nor is it a secret that another frigate, "Sarandi," became operational in March and that there are two more in that same family that are in the final construction phase. Not to mention of course the six Meko-140 corvettes, the six Thyssen TR-1700 submarines, all of which are under construction, plus the orders for Aeromacchi and Super-Etendard aircraft, helicopters, missiles--all for the Argentine Navy. Naval power

specialists firmly believe that these new equipment items, added to the already well-equipped Navy, would give Argentina undoubted hegemony among similar forces in Latin America.

But it is not only the strengthening of the Brazilian Navy which is of concern to Minister Maximiano da Fonseca. In his interview with ISTOE, he mentions as another priority in his tour of duty the promotion of professional skills among personnel under his command. Not a week passes that the minister spends 3 days in Rio, holding meetings which are attended by persons ranging from civilian workers at the Navy arsenal all the way to fleet officers, via all of the intermediate echelons, for the purpose of providing an incentive for their activities.

ISTOE: Assuming there is a war, what would be the volume of naval equipment the Navy would need for warfare?

Maximiano: The Naval Operations Staff has always been conducting studies to determine our requirements for ships and other equipment indispensable to guarantee the country's defense against any possible threats. These studies obviously are kept up to date with a view to the new aspects that might arise. Giving you an idea of our requirements would be more suggestive than bringing up statistics on equipment.

ISTOE: And what are those requirements?

Maximiano: One of the most efficient ways to defend the country's ports is mining. But we do not have minelayers. On the other hand, if one of Brazil's ports were to be mined--something which could be done with relative ease by submarine--we would need minesweepers in order, as happened during World War II, to clear the navigation access channel. Right now, we only have six minesweepers which could take care of only three of Brazil's ports. To protect the country's maritime traffic, just along the country's long shoreline, we need a large number of vessels of the corvette and frigate type. Depending upon the enemy's resources, a naval force without air cover is a force doomed to defeat. But we do not have aircraft suitable for that mission, that is to say, attack and defense aircraft on shipboard. The helicopter is one of the most valuable instruments right now for use in naval warfare and here again we have a practically insignificant number of units. The submarine is the other element of major importance, even in a purely defensive strategy.

ISTOE: Is the situation in the case of the Marines the same?

Maximiano: Precisely. The Marines constitute an indispensable element not only in projecting the country's power but also in carrying out missions of a purely defensive nature. A really efficient company of Marines requires a varied range of weapons, plus adequate ships to transport them. From that aspect likewise, we are very weak. All of this would have to be supplemented by our requirements in terms of ammunition--for guns, portable weapons, etc.--especially missiles, torpedos, mines, bombs, etc. The fact is, as far as these consumption items are concerned, the solution would not be to buy a

large quantity and store it in warehouses--because there is always a possibility that they would not be used and would become useless--but simply to get ourselves ready to produce them rapidly when they are needed. This is the policy we are seeking to pursue at this time.

ISTOE: How much does the Navy need to be properly equipped?

Maximiano: The Navy would need a minimum investment of \$15 billion over a period of 10 years to attain a level of equipment that would enable it reasonably well to guarantee the country's security in the South Atlantic with our own resources, that is to say, without having to depend on "friends."

ISTOE: How would these resources be employed?

Maximiano: They would not be applied for simple purchases abroad because that would only be a temporary solution. What we must do and what we are trying to do is to develop our ability to build and make everything we need in the country because the nation that does not make its own arms will always depend on others to guarantee its defense. In addition, the benefits to the country's technological development, deriving from that solution, are undeniable and that also includes the benefits of a social nature that would result from the expansion of the country's industry. Unfortunately, the funds available to us are far short of what we would really need.

ISTOE: Do you believe that the conflicts in the South Atlantic--and their consequences--will persuade the Brazilian Armed Forces to rethink their doctrine of using military materiel? Has the Navy already thought of new strategic plans?

Maximiano: We did not need the current conflict in the South Atlantic to conclude that the country's Navy is not properly equipped. This as a matter of fact helps us in alerting public opinion on what we have been saying for a long time. As for the employment of our materiel, nothing has happened that would persuade us to adopt any different criteria because what is happening now was easily foreseeable. But, I repeat, this is good in demonstrating just how short we are of equipment.

ISTOE: Again taking the current conflict in the South Atlantic as basis, who might Brazil's potential enemies be?

Maximiano: With some very rare exceptions, it is not easy to identify a potential enemy of Brazil. But it must be noted that the more a country develops, the greater is the possibility that areas of friction might arise because it is clear that the ever greater flow of Brazil's industrial products and its services abroad can lead to a clash of interests from which problems often result when you least expect them. The ever greater presence of Brazilian citizens, engaged in private activities abroad, is another fact to be considered here. History shows that the Armed Forces of a nation must grow in the same proportion as the nation's progress and growing wealth and therefore its importance in the international context.

ISTOE: Would that not be a rather warlike vision of international relations?

Maximiano: I do not consider myself a warmonger. On the contrary, I believe that it is lamentable that we have to spend so much money on armament. But there is no way of escaping reality. It is very important to note that the military equipment of Sweden, for example, is based on the fact that they consider it indispensable to have adequate military strength to maintain their neutrality. In reality, depending upon the circumstances, a militarily very weak country could be compelled to end its neutrality in a conflict between other nations.

ISTOE: Why?

Maximiano: Because, if a country is weak, it would wind up acting under pressure. In World War II, for example, Norway was unable to maintain its neutrality and that is what it wanted most of all. An armed and strong country with real power is in a position to decide as to what is best for it. And, in a situation in which the country must decide whether it should ally itself, whether to maintain its neutrality, or whether to switch to another side, these pressures come from every direction.

ISTOE: Looking again at the Falkland Island crisis, what degree of trust would the United States deserve from Brazil?

Maximiano: We must be realistic and I am one of those who believe that there cannot be any friendship as such among nations, only common interests. I do not doubt that the United States will be unconditionally on our side concerning all problems that are of common interest. Or, better still, I would say that the United States or any nation considered our friend would be on our side when it was in its interest or at least if that position did not affect its interest. In other words, friendship between nations goes to the point at which their interests are not harmed. Looking at the Armed Forces and from the strictly professional viewpoint, our relationship is the best possible.

ISTOE: Did the Navy discuss the use of "Minas Gerais" with the FAB [Brazilian Air Force]? Do we need another aircraft carrier?

Maximiano: There are no such conversations because the "Minas Gerais" has been designated for joint use by the Navy and the Air Force ever since the Castello Branco administration. In other words, the Navy operates the vessel and FAB personnel pilot the aircraft. What is becoming indispensable is to put attack aircraft on the "Minas Gerais" so that they may provide protection for a naval task force. Right now, the ship only has ASW aircraft on board, so that any task force of our Navy would have no air cover whatsoever. It was proved in World War II that the force would inevitably be doomed to defeat without such support, except of course if the possible enemy does not have any aircraft either. In the light of the studies conducted by the Naval Operations Staff, the Navy would at least need two aircraft carriers.

ISTOE: Have there been any meetings among the military commanders over the past two weeks, including a meeting at Granja do Torto with President Figueiredo?

Maximiano: Absolutely. To take up our joint affairs--affairs of the Armed Forces--we do not have to hold a formal meeting. We are in touch at all times, here and there, and every opportunity is used to discuss the situation and exchange ideas. Fortunately, we have understanding and harmony between the three military ministers.

ISTOE: Who produces military equipment for the Navy? What is being produced?

Maximiano: There are various sources, such as, IMBEL [Ordnance Industry]--through its factories--as well as AVIBRAS, Valparaíso, CBC [Brazilian Cart-ridge Company] etc. They produce portable weapons, ammunition for portable weapons, rockets, pyrotechnical devices, etc., in the quantities necessary, primarily for our use in training. The Navy's ammunition factory produces mainly large-caliber ammunition for guns.

ISTOE: Is the Navy exporting any military equipment?

Maximiano: So far, the Navy, through IMBEL, has been exporting only ammunition produced by it. In the meantime, there is a great possibility for exporting Brazilian-designed and built warships. Recently, the MacLaren shipyard turned over the last patrol boat in a series of ten built for the Navy of Chile.

ISTOE: From what countries does the Navy import military equipment? What kind of equipment is that?

Maximiano: We are importing from Great Britain, the United States, France, and Sweden. Right now we ordered torpedos for our submarines and we are studying the purchases of guns for the new corvettes to be built at home here by the Navy Arsenal in Rio de Janeiro.

ISTOE: In case of a war effort, what enterprises could make military armament for the Navy?

Maximiano: In addition to the naval shipyards of course all of the existing factories engaged in arms production, plus those industries that can be easily converted as happened in the United States during World War II.

ISTOE: You talked about the Navy's equipment shortages. Do you have enough personnel?

Maximiano: We also have a manpower shortage. There are new jobs to be performed, new commands, and, just to give you an idea, we are forced to assign lieutenants to command frigates because we do not have enough captains. That is not good.

ISTOE: The Navy has a re-equipment program which was launched last year. How is it progressing?

Maximiano: We are drawing up a plan for a period of 10 years and so far there is every indication that we can carry it through to the end. By 1991 we intend to add to our Navy one training vessel, 12 corvettes to be built at the Arsenal, and one patrol boat for the Paraguai River. We also plan for the construction of three conventional submarines with Italian or German technology transfer. The construction of these long-range conventional submarines will give us sufficient experience to plan the construction of the nuclear submarine by the end of the century.

New Submarine Model Selected

Brazil CORREIO BRAZILIENSE in Portuguese 10 Jun 82 p 4

[Text] Sao Paulo--Before addressing a group of 80 manufacturers at the Business Association of Sao Paulo, Navy Minister Adm Maximiano da Fonseca said that "I believe in the capacity of the Brazilian industry and, as part of the Navy's re-equipment program, we are deciding the last details for the choice of the submarine model we are going to build in Brazil." He added that the technology used will be from Germany and that the model of the submarine will be selected within 1 or 2 months, followed by a period of construction of 1 year so that one can expect a reasonable degree of Brazilian involvement.

The speech delivered for the manufacturers invited by the organization's president, Guilherme Afif Domingos, was given behind closed doors. The minister told the press that "it is very important for us to accept an invitation of this kind and to establish contact with businessmen in Sao Paulo." The topic was "The Navy's Operations."

Maximiano da Fonseca said that, if it were to get \$15 billion to invest over a period of 10 years, "the Navy would be quite tranquil. But it is obvious that the country cannot afford this kind of budget which would be equal to that of the hydroelectric power plant at Itaipu and we are therefore expecting new opportunities for investment in our operations here."

He added that, by virtue of current conditions, it might be possible to invest \$600-800 billion over the next 10 years and he ruled out the possibility that the administration might collect a tax to channel funds for Navy re-equipment, in answering a question from a reporter.

Answering another question, the minister made the following statements:

"What worries us most is not North-South relations but East-West relations because this affects the entire world and conflicts in the South Atlantic are passing things.

"There may be indications of communist infiltration through the South Atlantic but there is no actual infiltration. I believe that this is more likely to happen in Central America.

"We are doing everything possible to stop purchasing equipment abroad. I have confidence in the power of Brazilian industry. We have already launched a completely Brazilian-built survey vessel and we are building our training vessel here, in addition to four corvettes.

"The country's Navy is bigger in terms of tonnage than the Navy of Argentina. The only trouble is that we do not have any defensive aircraft. This is a very serious point. For example, we need jato aircraft for the 'Minas Gerais' and that is our weakest point.

"The conflicts in the South Atlantic can create long-term problems. The Atlantic is an ocean that does not present any problems involving a short-term conflict. But if a conflict drags out, this can be harmful to the tanker and raw material vessel shipping lines going via the North Pole because the ships have to go through there.

"It is obvious that we do not have armed forces to make a military investment by ourselves such as the big powers are doing but we do have quality and we only need to increase the quantity of our personnel and materiel."

One reporter also asked how the navy minister viewed the actions of former governor Paulo Maluf and his aspirations to become a candidate for the office of president of the republic. Maximiano da Fonseca replied: "I said earlier that any Brazilian who has reached the age of 35 can be a candidate. Personally I always prefer that the candidate be a civilian."

The minister had lunch in the home of manufacturer Paulo Mariano Ferraz, returning to Brasilia at 1530 in an FAB aircraft after spending 24 hours in S. Paulo.

Naval Vessels

The increase in the number of vessels, according to guidelines adopted by Navy Minister Maximiano da Fonseca, will be achieved with equipment purchased for domestic industry so that the country will have a realistically rational air and naval force, sources in the Ministry in Brasilia said yesterday.

These same sources added that studies are now underway concerning the construction of four modern vessels in domestic shipyards, planned by Brazilian naval engineers. In his Order of the Day, dealing with the 117th anniversary of the Naval Battle of Riachuelo, on 11 June, Navy Minister Maximiano da Fonseca stressed the importance of having ships built in Brazil and the need for drafting a policy for maritime development.

The Navy boss in recent public statements said that the Brazilian Navy must be modernized so as to be able sufficiently to accomplish its constitutional mission. The increase in budget allocations, with a view to expanding the Navy, was the subject of a recent meeting held with Planning Minister Delfim Netto.

5058

CSO: 3001/163

GREATER INCENTIVE FOR S&T URGED: JAPAN INTEREST IN ACCORD

Incentives for Science, Technology

Sao Paulo O ESTADO DE SAO PAULO in Portuguese 9 Jun 82 p 12

[Text] There are at least seven obstacles to the development of science and technology in Brazil, in the opinion of Jose Israel Vargas, secretary of industrial technology, Ministry of Industry and Commerce. The failure of science and technology to be involved in the nation's great undertakings, the absence of the registration of the entry of foreign technologies, the absence of basic scientific and technological services and their submission to the rules of DASP [Public Service Administrative Department]--these were the three main points mentioned by the secretary in debating with scientists, educators, and officials from the government and the World Bank who are meeting in Brasilia, during a seminar on educational priorities for the decade of the 1980's, promoted by CAPES.

Israel Vargas also said that 80 percent of the country's tax revenues are used to provide incentives for the industrial sector and "it would be very good if at least 5 percent of that were to be used for the development of science and technology." In an implied criticism of the CNPQ--the National Council of Scientific and Technological Development--he said that "the sector of science and technology coordination is getting away from coordination and is getting involved in execution."

Looking at the development of technology in Brazil, priority must be assigned to the rationalization of industrial production, said Vargas, adding that industry grew quite without direction.

He also indicated priorities for the improvement and incorporation of new technologies in existing processes, for industrial design, for biotechnology and bioengineering, and for software processes which must be included in teaching curricula.

The secretary said also that priorities in science and technology must take into account data recently supplied by the FAO according to which the "tropical countries can on balance extract 12 billion cubic meters of lumber per year, equivalent to 20 billion barrels of oil, in addition to which they have waterpower reserves amounting to double the energy of OPEC."

Taking issue with the opinions expressed by Israel Vargas, Jose Middlin emphasized the need for demanding open technology transfer in connection with foreign investments. "We must have legislation that will require certain conditions," he said, "because Brazil is giving too much away."

In addition to the failure to record the entry of technology, the noninvolvement of science and technology in the nation's big economic undertakings, and the absence of basic services, Israel Vargas listed the following as obstacles to the country's scientific and technological development: The difficulties in drafting science and technology projects, the management of current activities for each project, and weakness in the basic industry technology sector.

Symposium

The establishment of an autonomous and democratic agency for managing money coming from a specific fund intended for the restoration of individual health, run by representatives of employees, employers, and the administration was proposed yesterday by Brazilian Hospital Federation Vice President Silio Nascimento Andrade during the debates in the course of the Third Symposium on National Health Policy held in the Chamber of Deputies. The need for a re-orientation of the health assistance model was recognized by all who participated in the debates. According to data presented by Jose Teofilo Oliveira, deputy superintendent of the IPAN (Planning Institute), the country in 1981 used about 900 billion cruzeiros for health services. The public sector participated in the expenditures to the extent of two-thirds while one-third was taken care of by the private sector.

Scientific Cooperation with Japan

Sao Paulo O ESTADO DE SAO PAULO in Portuguese 10 Jun 82 p 6

[Text] Japanese Embassy spokesman Minister Keijiro Matsumara, talking yesterday about the visit which Japanese Prime Minister Zenko Suzuki will pay to Brazil next week, said that "after the visit last April by Foreign Minister Saraiva Guerreiro, the readiness of the Japanese government to sign a scientific and technological cooperation agreement with Brazil changed completely" and that his government "today is just as interested in the undertaking as Brazil."

According to the Japanese government spokesman, the prime minister, in his talks with President Figueiredo (scheduled for next Monday) will take up three topics: The international situation (with special emphasis on the crises in Southeast Asia, the Middle East, and the Falkland Islands); disarmament and the decision of the meeting of the rich countries, and the position of the two countries in view of the current international situation.

The scientific-technological agreement will be especially emphasized during these talks, primarily since Prime Minister Suzuki, during the Versailles meeting, advocated scientific-technical cooperation as one of the most effective ways to revive the economies of the countries of the Third World. Even

so, the Japanese spokesman did not wish to hit as to the stage in which his government is at this time concerning the final draft of the accord; he confined himself to saying that the matter will be definitely spelled out and a timetable will be drawn up following the conversation between President Figueiredo and Prime Minister Suzuki.

Until the visit of Foreign Minister Saraiva Guerreiro to Japan, every time the matter was taken up (from the very first proposal, made in 1976, prior to the official visit of the then President Geisel), the Japanese leaders simply refused to debate the issue, stressing the existence of agreements in the area of culture and sciences which worked perfectly well.

When the foreign minister again proposed that such an agreement be signed, he was surprised to find that the Japanese not only agreed to the idea but promised to study it shortly. It was not specifically indicated just exactly what changed the Japanese government's attitude. But it is believed that Itamaraty [Foreign Ministry] that new prospects of cooperation--primarily on the Grande Carajas Project--were responsible for this change.

Another matter which will also have to be debated between the two heads of government is the Brazilian request for Japan to grant more export facilities for the Brazilian products, primarily in the area of food and manufactured articles. Right now, a series of countries, headed by the United States, are pressuring the government in Tokyo to suspend these demands as compensation for the great advance in their exports.

Foreign Minister Saraiva Guerreiro had an opportunity to say that Brazil--although it also needs to expand its sales--is not trying to joint any pressure group or go along with any form of pressure. For the Japanese spokesman, the increase in exports over the past 10 years, plus the massive investments (Brazil is the third country, in sequence, where Japan is investing, after the United States and Indoensia) are indications that new prospects of export will be opened up, primarily after the opening of the port of Tubarao.

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GOLD PRODUCTION REACHES 3,875 KILOS IN FIRST FOUR MONTHS

Sao Paulo O ESTADO DE SAO PAULO in Portuguese 11 Jun 82 p 23

[Text] Although Serra Pelada, the country's second largest gold field, has been semiparalyzed since October 1981, the gold output of the 22 Brazilian gold fields during the first quarter of this year came to 267 kilograms, about equal to the same period last year. The cumulative total for the first four months of this year came to 3,875.8 kilograms of gold, as against 3,608 kilograms produced until April 1981. In releasing these statistics, the DNPM (National Mineral Production Department) estimated that the gold fields should close the year 1982 with an output of 19 tons of gold whereas the output in 1981 was 13 tons.

The DNPM at the same time confirmed that the Serra Pelada gold field would definitely be closed down in December of this year, when the Doce River Valley Company will have to start mechanized gold washing. Under the current conditions prevailing at the gold field, according to DNPM, the government is more interested in mechanized washing because gold output is up and this would avoid expenditures arising from construction work which would be necessary for the safety of the gold fields.

Serra Pelada began to produce in 1980, the year gold output reached a high of 6,595,325.46 grams. Last year, the output dropped to 2,581,003.50 grams because operations at the gold field were interrupted due to construction work being done to prevent the barriers from caving in. With the output of the first 4 months of this year, the gold washing accumulated since the start of the gold field came to 9,592,856.06 grams.

According to DNPM, there are 25,000 gold field workers in Serra Pelada right now. The gold output however is low, around 2 kilograms per day, because many workers continue to clean the area and because they are also facing the problem arising from the shortage of water when it comes to washing the mineral. The DNPM however pointed out that the closing of the gold field in December does not mean that the gold field workers will be chased out by the police or the guards. It guaranteed that the workers would be transferred to the other 28 gold fields or even to agricultural activities.

According to the DNPM however the workers would prefer to go to the Tapajos gold field, the country's biggest, which should produce 8 tons of gold this year. The DNPM estimates that the total output at Serra Pelada this year should come to 6 tons, with 400 kilograms of gold in June alone.

GUATEMALAN REVOLUTIONARY LEADERS INTERVIEWED ON POLITICAL PROSPECTS

Moscow LATINSKAYA AMERIKA in Russian No 5, May 82 pp 23-32

[LATINSKAYA AMERIKA interviews the leaders of the Cuatripartita bloc: Marcos Villatoro, Carmelo Diaz, Silvia Garcia and Ruben Lima: "Representatives of Revolutionary Organizations Speak"]

[Text] At the request of the editorial board, our journal interviewed in one of the Latin-American countries representatives of the four revolutionary organizations of Guatemala comprising the Cuatripartita bloc: Marcos Villatoro (Guiding Nucleus of the Guatemalan Labor Party), Carmelo Diaz (Partisan Army of Poor People), Silvia Garcia (Armed People's Organization) and Ruben Lima (Insurgent Armed Forces). In the course of the talk, which was held in 1981, they spoke of the situation in the country and of the activities of their organizations. The text of the interview is published in condensed form.

[M. Villatoro] First of all we would like to give warm fraternal greetings in the name of the four organizations comprising the Cuatripartita bloc to the readers of the journal LATINSKAYA AMERIKA. We get, albeit irregularly, occasional issues of the journal, the contents of which, especially the analysis of the most important aspects of revolutionary processes on our continent following the victory of the Cuban revolution is of great interest to us. But the importance of the journal is determined not just by the fact the methods of the revolutionary movement in the countries of Latin America are generalized, but also by the fact that it shows the achievements of the world socialist system, which continue to be for us the basic reference in the struggle against the forces of imperialism and reaction, and illumines both the successes and the temporary failures of our struggle. Today, when a new wave of revolutionary upsurge encompasses the countries of Central America, we hope that we shall receive your journal more often. This will help us better to orient ourselves in the complex problems of the present time.

We would like to thank the editors for providing us with the opportunity of describing the specific aspects of the present stage of the revolutionary process in Guatemala. Although following the fall of the Arbens government in 1954, the revolutionary struggle has continued for almost three decades, the

tragedy Guatemala is going through is insufficiently known to the world. People know of the pain and tears of many Guatemalans; they know that in this short period about 80,000 persons have been killed in our country. But the situation that has developed in recent years, the rise of the revolutionary struggle by revolutionary organizations require deeper understanding.

Tremendous unutilized resources exist in Central America by virtue of which it would be possible to create quite quickly a modern developed society. But this is not taking place. True, the impression of Guatemala as a "banana republic" for a long time now does not correspond to reality. Beside traditional sectors of light industry, the products of which are for both domestic consumption and for export, deposits of nickel, uranium and other useful minerals are being worked here. After promising deposits of petroleum were found on the border with Mexico, a petroleum production industry began to develop. But all sectors of the economy, including agricultural production, are chiefly oriented toward the growing of such export crops as sugarcane, cotton, coffee, depend on the United States and are subordinated to the interests of transnational corporations (TNC), which utilize the cheap labor of Guatemalans and local raw materials.

Our country, like other states of the region, has been for long years under the yoke of imperialism and the reactionary oligarchy, which reduce to naught the opportunities for accelerated development. We need radical changes, because with the preservation of the present order of things, the development of capitalism in Guatemala is completely subordinated to the interests of North American imperialism. The local oligarchy is so closely tied to the interests of U.S. monopolies that the entire economic life of the country is made dependent on them. Being an extremely reactionary force, the oligarchy forces its people to live for the benefit of imperialism under conditions of backwardness, poverty and absence of medical services.

It can be seen to what degree, when after a visit to Guatemala in 1980 U.S. Undersecretary for Interamerican Affairs Bowdler presented at the State Department a report on his trip and made an official statement, published in the press, with the assertion that all the prerequisites for revolutionary changes exist in Central America. They are due to the urgent necessity of a change in the situation of the broad popular masses immersed in poverty. Bowdler stated in particular that this region of Latin America continues to be the least developed, since many reforms were not carried out here that had been implemented in other countries of the continent. All the wealth is concentrated in the hands of a small group, the power of those that have, while workers enjoy no benefits. Consequently, as Bowdler pointed out, changes are extremely necessary, and the problem for the United State is not their prevention but quite the opposite-- implementation of major changes in such a way that they minimally impinge on U.S. interests.¹

1. For more detail on this document see: LATINSKAYA AMERIKA, No 7, 1981, pp 58-74. (Note by editor.)

It would be difficult to make a more concrete conclusion--our assessment of the situation in the country largely coincides with the point of view stated by the U.S. undersecretary. The difference primarily is that we consider implementation of reforms in the existing situation to be senseless--revolutionary changes are needed. The model of dependent capitalist development foisted on Guatemala by imperialism cannot solve the most acute problems facing our people. The way of gradual changes under conditions of domination by a reactionary oligarchy is doomed to failure in advance. Confirmation of this is to be found in the collapse of the attempts at carrying out tax and agrarian reforms which threatened the interests of the ruling groups. Guatemala like Haiti has the largest percentage of illiteracy on the continent and the highest child mortality, but questions of construction of new hospitals, improvement of medical services for the broad masses of the people and the development of the educational system are not included on the agenda. The deformed development of the country via the capitalist route is expressed in the fact that changes are being implemented that are beneficial only to those who are in power. In some cases, representatives of the local oligarchy operate from even more rightist positions than do the transnational corporations.

Today, under conditions of a most acute structural crisis, the oligarchy is not averse to using any means, including terror and murder, to stay in power. It is for this reason natural that elections in our country are a farce, used only for the purpose of foisting on the people the will of the minority. The presence of several candidates for president--both from representatives of the army leadership and from political parties--does not fool anyone: the new president will still be elected by those who really rule the country, while the position of the people will remain unchanged or even deteriorate still further.

We believe that at the present time armed struggle is the only answer to the policy of the ruling leadership. In Guatemala all the conditions exist for the carrying out of a revolution. The partisan movement has quite a bit of experience. We are learning to correct our mistakes. The exacerbating crisis of the world capitalist system increasingly affects the deteriorating situation in our country. Growth of living costs and inflation make the position of workers and peasants even more difficult. A factor of tremendous revolutionary influence is the international situation; here you must keep in mind not only the development of events in Central America but also wide-scale international solidarity with the struggle of our peoples, including in Western Europe and in the countries of the socialist camp.

[C. Diaz] In touching on the question of the ruling leadership in Guatemala, I would like to dwell on the rise of a new group, which came into existence in the '60s and which is now our main enemy. As you know, following the Cuban revolution, a partisan movement became active in our country, which it seemed threatened the existing government. Under these conditions, the top military leadership used all the means at its disposal to suppress the partisan struggle. As a result, the military obtained access not only to real power but also to a significant portion of the national wealth, which previously belonged exclusively to oligarchical circles, for the preservation of whose interests the revolutionary movement was suppressed. The army stained itself with

blood, but the top officers knew for what purpose this was being done--they acted not only as a military power, carrying out the orders of the oligarchy, but also as its ally striving for the division of power and national wealth. Since then the military in Guatemala have become a most powerful force, using their position for their own enrichment.

Thus in the last two decades significant changes have taken place in the composition of the exploiting class; moreover, the interests of its new groupings often contradict the interests of the traditional oligarchy--the landowners and the bourgeoisie. But, despite the existing differences, there is always agreement in one activity among all the representatives of the ruling leadership--in their desire to oppress and exploit our people, and when it deals with the struggle for liberation--to rain down repressions on it. This question is very important, especially in the period of preparation for the coming struggle, as we believe that the military are responsible for the catastrophic political and social-economic situation existing in the country.

As for the distribution of class forces, it can be noted here that in Guatemala a significant portion of the population belongs to the peasantry, who are basically of Indian origin, with small land plots located on plateaus which are of poor fertility. Furthermore, with time, the peasants were obliged to divide these lands among their children. For this reason, their allotted lands can in no way serve as a source of sustenance, and most peasants are transformed into semiproletarians, forced to seek seasonal work on the large estate farms in the country's south, where export crops are grown for the most part. The main portion of Guatemalan workers consists of semiproletarians, who are against the system of dependent capitalism. The semiproletarian strata together with the peasantry constitute that social base which must be transformed into the moving force of the revolution.

I would like briefly to describe the role of the church. Its position is determined by the fact that over the course of a long time the country had no national clergy as, for example, in San Salvador. Our church organization basically consisted of foreign priests primarily from Europe--Germans, Dutchmen, Italians and Spaniards. Many of them, brought up on the decisions of the Second Vatican Council, adhere to progressive views.

In recent years, our church organization has had young Guatemalan priests added to it. They work primarily in rural localities, where all the contradictions of our development and the poverty of the population are manifested with special force. This part of the Guatemalan clergy does not see a way out of the existent situation through partial changes and reforms and realizes that the pressing problems can only be solved through revolution. They are doing much work among the peasants, convincing them of the necessity of revolution, transforming religion into a means of validating their rightness. Thanks to their activities, organizations have been created in rural localities, educating people useful to the cause of revolution.

[Question] Is the Guatemalan clergy connected to the Christian movement for socialism?

[C. Diaz] Yes, I believe that the priests who were educated abroad had connections with this movement. There have also been Guatemalan pastors sharing these views, but the clergy leadership, and first and foremost Archbishop Mario Casarrego, tried to get rid of them.

At the same time, a part of the clergy continues to speak for reformist changes in the spirit of the present policy of the Vatican, trying thereby to weaken the growth of the revolutionary struggle. But the conducting of a moderate course in Guatemala is becoming increasingly difficult, as it is impossible to hold to an intermediate course under the conditions of such a sharp polarization of class forces. Moreover, even those priests who share reformist views are persecuted. As a result, the representatives of this current are beginning to reach the conclusion of the need for a revolution.

One fact is very important, namely that the Indian communities, professing both the religion of their ancestors and Christianity, have recently been increasingly favoring the struggle against the government. For example, it is frequently possible to hear such statements by the leaders of the communities: "Our children are not going to serve in an army of the rich. Our children are going into an army of revolutionaries...."

We consider the chief force of the ruling classes, who are against the revolution, to be, as has already been said, the army. It is a well trained monolithic organization rallied around the command. The consolidation of the army occurred after the well-known armed displays in 1962 when a number of students of the polytechnic schools, such as Luis Tursios Lima, Marco Antonio Llon Sosa, Alejandro de Leon, Luis Trejo Esquibel and others, on learning that an invasion of Cuba was being prepared in their country, came out with arms in their hands. After this, a great deal of ideological work was conducted in the army with the help of American specialists.

But at the present time, the armed forces have a sufficiency of serious contradictions. The chief of them is the fact that the majority of the soldiers are peasants of Indian origin to whom the ideas of the top officers are alien. In addition to this, profound differences exist between the top command and the young officers. In the military educational institutions, cadets are educated on the principles of military honor. But in front of their eyes, soldiers kill women, children, old men and commit thefts. The actions of the armed forces against their own people cannot but help be permeated with falsehood and deceit. Thus, for example, after clashes with partisans there are news only of our losses; they bury killed soldiers without any military honors in order to hide the truth of their failures.

[Question] What is the size of the armed forces of Guatemala?

[M. Villatoro]. About 15,000 men, but as many as 25,000 if you take into consideration the repressive organs. I should add that the army is armed with modern and extremely effective types of weapons, in particular with the Israeli Galil rifles.

[Question] Can it be assumed that the crisis gripping the country has also affected the army?

[S. Garcia] This could be said of representative of the army's leadership, who have besmirched themselves with corruption and who are primarily engaged in enriching themselves. As for the middle-officer complement, the majority of the officers have neither firm convictions, nor the desire to fight, nor the possibility of directing combat operations. For this reason our propaganda and information work is conducted primarily among officers of the middle echelon so as to open their eyes to the situation existing in the country.

In my view, the question of the Guatemalan army is closely connected to the role which ruling U.S. circles assign to our country in Central America. Imperialism has always considered Guatemala as a base for control over other Central American states. It is for this reason that the armed forces of our country have started to play the role of gendarme in this region, assuming those functions which formerly were performed by the Central American Defense Council. Inasmuch as at the present time the traditional ruling circles are incapable of fulfilling the task imposed upon them, the reins of government have gone over to the army, which protects the interests of imperialism and the ruling classes.

But whereas formerly the use of coercion, camouflaged with the facade of "democratic elections," brought about the expected results, in recent years, the facts increasingly attest to the insolvency of such a tactic. The fact is that at present imperialism is unable to offer Guatemala any effective means for a way out of its acute social-economic crisis, while everything that had been proposed to it earlier has failed disgracefully. At the same time, the revolutionary forces in their activities are guided by a deep understanding of the historical moment the country is going through and by a firm conviction of the rightness of the chosen path. At present the broad masses of the population are also coming to understand this.

Actually since the second half of the '60s, the army has been trying to create the impression that the governments that come to power are democratic and elected by the people, although the top military leadership has as before exercised full political control over the whole country. The end of the '60s and the beginning of the '70s were for the ruling circles a period of relative quiet. But this quiet was deceptive--it was at this time that the revolutionary movement was acquiring experience, was uniting and arming under underground conditions. As for the economic upsurge which the official circles spoke much about in those years, only the ruling leadership in reality was unrestrainedly becoming rich, while the majority of the population still remained unchanged.

We sensed the support of the people when the partisan movement shifted to armed struggle. This took place in the second half of the '70s and was closely connected to the fact that the greater part of the population, first of all the Indians, began to take an active part in it. This was especially clearly manifested in rural localities. For this reason the armed forces of Guatemala with the end of the '70s began to conduct wide-scale punitive operations in the

rural districts against the partisan detachments. But this tactic did not result for them in particular successes. Then they began to shift their operations into the mountains. But there the members of the punitive expeditions came in contact with the population, which, not wishing to cooperate with them, helped us.

[Question] What place in the political life of the country is occupied by the political parties?

[S. Garcia] The role of the political parties is determined primarily by the fact that practically all the power at the present time is concentrated in the hands of the armed forces. For this reason party struggle is increasingly being transformed into a political game of the ruling classes under the mask of democracy. Existing parties are essentially groups uniting representatives of individual factions of the bourgeoisie and the landowners, which were established in various periods of political struggle.

The party, occupying the extreme rightist, anticommunist positions and striving to win the sympathies of the ruling class, is the Movement of National Liberation. Other parties also exist: the Institutional-Democratic Party, the Revolutionary Party as well as the organization of the adherents of former President Arana Osorio--the Central Authentic Nationalist (SAN). All of them are conducting a struggle only within the narrow parameters set by the armed forces. The movement of Christian Democrats, which at the time of Carter could have been called an opposition to the regime, is giving up its positions and under present conditions is only trying to survive as a political current. Two parties--the United Front of Revolution and the Social-Democratic Party of Guatemala--could have possibly carried out radical changes several years ago, but at the present time their leadership has been physically destroyed, while many of the rank-and-file members are joining revolutionary organizations or have left the country.

The Movement of National Liberation, the Institutional-Democratic Party, the Revolutionary Party and the Central Authentic Nationalist organization have tried to create the impression that a democratic struggle for power was possible in the country, especially in the course of election campaigns. But they all hold rightist positions, which the Guatemalan people know well. The workers know that these parties are playing no real role in political life; they do not possess the true power which is concentrated in the armed forces.

[Question] How actively do the workers and peasants of Guatemala utilize trade unions in the struggle for their rights.

[R. Lima] In the last three-four years, the movement of the workers of our country for the satisfaction of their social-economic needs has significantly expanded. Trade-union organizations under the influence of the government and of the reactionary parties have never succeeded in uniting as many people as the National Union of Workers (NUW), the Federation of Workers of Guatemala (FWG), the Committee of Peasants' Unity (CPU)--as the trade unions whose struggle is directed by the members of our organizations. But it is very important to note the creation of the National Committee of Trade-Union Unity (NCTUU).

With the formation of the National Committee of Trade-Union Unity, conditions developed for the creation of the United Center of Workers of Guatemala, which could unite all sectorial trade unions for the coordination of the activities and reduction of the influence of the bourgeois and petty bourgeois ideology in the worker movement. By conducting political work within trade-union organizations and upholding Marxist-Leninist ideas in the struggle with other ideological currents, including the social-democratic, we were enabled to achieve greater mutual understanding between revolutionary and trade-union organization and to raise the political consciousness of the workers and peasants. Preparation for coordination of the activities of different trade unions began because the workers themselves considered unity as a means of protecting their interests.

At the same time, owing to the exacerbation of governmental repression and murder of many trade-union leaders, we call upon the unions to go over to an illegal or semilegal position. But there where it is possible, we take part in meetings, strikes and seizures of grounds of enterprises by workers. We believe that at the present stage of revolutionary struggle, it is necessary in preparing the masses for an uprising to correctly combine different forms of actions and to control this preparation so that workers would not take rash steps that might weaken the revolutionary movement.

[M. Villatoro] At the present time, when the revolutionary movement is coming to include increasingly broader masses of workers, peasants, students and representatives of the middle strata of the population, it is especially important to strengthen the ties between our organizations and the trade unions. We devote a lot of attention to this. For this reason it can be asserted with all responsibility that we have a broad social base in our struggle, expressing the aspirations of the majority of the Guatemalan people.

[Question] In what position are the revolutionary organizations at the present time--in the stage of formation, consolidation of forces or preparation for action?

[C. Diaz] Essentially--inasmuch as each organization is following its own path of development--we are now going through the stage of consolidation of forces, which is being accomplished in parallel with revolutionary activities. Our motto "to fight and to organize" simultaneously calls for conducting of partisan warfare and mobilization of the popular masses. Our task is the unification of all four revolutionary organizations under conditions of armed struggle--acquiring experience and creating prerequisites for changing the correlation of forces in favor of the revolutionary. We believe that the time has already come for general armed struggle.

Structurally, our organizations--the Partisan Army of Poor People [Partizanskaya armiya bednyakov]--consists of groups which, while conducting political work, are at the same time combat units. We come to meetings with arms, we take part in combat operations and direct them; we also have the experience of political leadership. In order to seize power, revolutionary armed struggle must be combined with political work.

In regions suitable for the conducting of a partisan armed struggle, for example in the north of the country, most of our partisan groups are concentrated, operating in rural localities. There also exist self-defense detachments, regular armed units are being created, which are the prototypes of our future armed forces. We believe that given the conditions of our country partisan warfare in rural localities is an essential form of armed struggle.

In cities, where workers, students and representatives of the middle strata are concentrated, we are essentially engaged in political work, trying to exert an influence on the large trade unions. At the present time, it is difficult to conduct wide-scale combat operations in the cities, as large army forces are concentrated there; they are located in well reinforced barracks and have constant communication. Nonetheless, we have in the cities "commando" type combat groups, which are ready to carry out any operation against the enemies.

Still in Guatemala, revolutionary partisan forces, supported by the peasantry, have the possibility of broadly operating in rural localities, where regular military units experience considerable difficulties because of wide-ranging territories and an absence of good roads. There, depending on concrete conditions, we conduct a political struggle as well, but our preference is for combat operations.

Speaking of the ties of our organizations with the masses, I would like to note, that the participation of the rural population in military operations depends on the type of operation. For example, for attacks on barracks, we have specially trained groups numbering about 80 men. When we organize, let us say, ambushes on roads, we usually use groups of 20 persons. Many rural inhabitants communicate to us concerning the actions of the local authorities and movements of troops; they also help us with food.

In the cities, the size of our groups as a rule is considerably smaller. But sometimes when it is necessary to seize a well-protected enemy, we use detachments of 20-30 men.... But these are quite special acts.

[M. Villatoro] In answer to the question as to what period the revolutionary organizations of Guatemala are now going through, it may be answered that basically we have arrived at a time of unification. We have already conducted a number of successful joint operations. Right now all the four organizations have their own experienced cadres of military leaders, fighters and members of the resistance movement--the "milisianos." So far we have been conducting irregular partisan operations, but for the long term we plan constant combat operations. Today with activization of the partisan movement and also in view of the events in El Salvador, we are planning to expand the activities of the partisan groups throughout the entire country.

In conclusion, I want to say that the tactical task of our political work and of the revolutionary struggle is the overthrow of the dictatorship and the establishment of a people's democratic revolutionary government. As we have already said, no other route exists for this except the armed one. But we shall take it only with the obligatory support of most of the people.

We are thus working along this direction, trying with the participation of the broad democratic strata of Guatemalans, including emigrants, to create a strong national front, which will be capable of solving the most important of the problems facing us: formation of a new government, destruction of repressive organs, granting of democratic rights to all the people, giving land to the peasants--that is, fulfilling in fact the program of people's demands. The solution of these problems is bound to lead to gaining of true independence for the country, protection of its natural wealth and growth of the well-being of our people and their free development.

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INFLUX OF FOREIGN CAPITAL CANNOT SOLVE GUATEMALAN ECONOMIC PROBLEMS

Moscow LATINSKAYA AMERIKA in Russian No 5, May 82 pp 14-23

[Article by I.M. Bulychev: "'New Model' Economics and Old Problems"]

[Text] The period of rule of General Lucas Garcia--a stooge of the local oligarchy and the reactionary military--has resulted in the further deterioration of the position of Guatemala's economy. The rate of development has sharply slowed down. Some economists are inclined to explain the resultant decline only because of the unfavorable world market conditions with respect to the basic items of Guatemala's agricultural exports and political instability, an inseparable concomitant of which have become the growing escape of capital and the curtailment of the business activity of the private sector.

It seems, however, that the main reason for the exacerbation of the chronic crisis situations should be sought in the actual structure of the Guatemalan economy, formed under conditions in the country of American capital's hegemony under whose control it remains to this day. Events of recent years attest with perfect clarity to the unacceptability of the model of development worked out with the direct participation of transnational corporations (TNC) aimed at the broad involvement of foreign capital, limited modernization of agricultural production (chiefly the agrarian export sector) and the creation of individual sectors of an import replacing industry.

Crisis of Traditional Structures

Of course, contemporary Guatemala is not the former "banana republic."¹ Still even at the present time, the economic profile of the country is determined as before by agricultural production and its export sector, providing more than 60 percent of all foreign exchange receipts.² Despite the fact that agriculture lags behind other sectors in its tempo of development, it has for its share 28 percent of the gross internal product (see table).³ It is the chief source of existence for 700,000 peasant families and employs 53 percent of the economically active population.⁴

The chief barrier restraining the development of the productive forces of Guatemala's agriculture is the existence of two mutually connected sectors: the export (modern) and the traditional, the clearly expressed dualism of a

dependent economy. The export sector, controlled by international monopolies, specialized in the production of tropical crops for the world market. About 70 percent of the total value of Guatemala's exports consists of coffee, cotton, bananas and sugar. Guatemala's chief export crop--coffee--is grown in three chief zones: on mountain slopes facing the Pacific coast and in the regions of Antigua and Alta Verapaz. The total area of the coffee plantations is 248,000 hectares. Eighty percent of the coffee crop comes from 1,500 large farms, which employ more than 420,000 of the agricultural workers.⁵ The main production region of the second important export crop--cotton--is located in the country's southwestern zone (the total area of the plantations exceeds 120,000 hectares). On the Atlantic coast development of new land is continuing for banana plantations belonging to an affiliate of Del Monte--the Bandegua Company.

Table. Structure of Gross Internal Product (GIP), Growth Rates of the Leading Sectors of Guatemala's Economy, %

Sectors	Share in GIP		Rates of growth		
	1970	1980	1978	1979	1980
GIP	100.0	100.0	4.9	4.3	3.4
including:					
agriculture	27.3	28.0	3.2	3.2	2.4
mining industry	0.1	0.4	58.1	85.7	34.1
processing industry	15.8	15.6	6.4	5.4	6.0
construction	1.6	4.0	3.3	1.1	-0.7
trade and finance	31.6	27.4	4.7	4.4	2.8
other sectors	23.9	24.6	---	---	---

But expansion and some modernization of production in the export sector in the past decades has practically had no impact on the situation of the workers employed in it. As before, they are subject to super-exploitation of the large landowners and American monopolies; they are frequently shackled to the plantations with enslaving contracts and eke out a semibeggarly existence. Plantation workers are actually cut off from the domestic market, since, according to the terms of their hiring agreement, they are obliged to get all the necessities from a network of tiny stores created by plantation owners. This is an additional source of enrichment for foreign companies importing basic consumer goods and selling them to the workers at increased prices.

The low developmental level of the traditional sector of Guatemala's agriculture hinders the solution of the food problem. Despite expansion during the '60s and '70s of production of food crops, the volume of food imports grows larger with each year. An obstacle in the way of modernization continues to be an outdated structure of agrarian attitudes determining the extreme unevenness in the distribution of land. According to the data, at the end of the '70s, about 80 percent of the agricultural land was owned by 1 percent of the population.⁶ At the same time, only 18.7 percent of the cultivated land falls to the lot of 365,000 owners of tiny strips (microfincas or parcels).⁷

Trying to avoid social upheavals, the country's ruling circles in the '70s adopted a series of special measures. There was created in particular a National Institute of Agrarian Reorganization, which was charged with the supervision and coordination of work on partial modernization of the existing structure of agrarian relations. A National Bank for the Development of Agriculture for providing financial and technical assistance to farmers and a National Institute for the Sale of Agricultural Products were also instituted. But all the implemented "reforms" of the Guatemalan countryside have a clearly expressed class direction. In the final analysis, they are intended to preserve untouched the property of the large landowners and foreign monopolies. It is no accident that the main part of state aid for the needs of agriculture falls into the hands of the latifundists. As a result, the state measures have actually resulted in intensification of the process of concentration of landownership in the hands of a small oligarchy. And this has been responsible for the creation of new foci of social tension in the countryside.

The situation in agriculture exerts a negative influence on the development of the entire economy, exacerbating problems of accumulation and utilization of the country's natural and labor resources and expansion of the domestic market. The latter in particular is determined by the fact that in view of the extremely low level of income, the greater part of the peasants is practically excluded from the sphere of commodity-monetary relationships. The latifundists are the chief users of imported goods.

Certain hopes for the expansion of the domestic market were connected with a process of import-replacement industrialization started in the country in the middle of the '50s. Such sectors as food, textile, chemical and others underwent special development. The process accelerated following the inception of the Central American Common Market (CACM). Guatemala was transformed into one of the most developed member-countries of the CACM in industrial relationships. Nonetheless the industrial development was of a deformed character and was weakly connected with the developmental tasks of the whole Guatemalan economy. This primarily occurred because of the introduction into it during that period of numerous affiliates of foreign (especially American) companies, which occupied key positions in the most dynamic industrial sectors and developed them in conformity with their interests.

In the second half of the '70s, the country had 2,107 industrial enterprises with a total number of 65,000 employees. Of these, 65.9 percent worked in small workshops and microfactories, consisting of 5 to 19 workers. The country only had 346 enterprises (16.4 percent of the total number) with personnel numbering 50 or more persons.⁸

The distribution of the productive capacities of the processing industry is extremely uneven.⁹ Most industrial enterprises (about 70 percent) are found in the capital--the city of Guatemala. In 1979, a law was adopted on decentralization of industrial production, in accordance with which there was planned the construction of new enterprises in the east of the country (Department of Zacapa), in the central region (Department of Coban) as well as in the Departments of Progreso and Chimaltenango, located respectively to the east and west of the capital.¹⁰ In accordance with the four-year plan of national development

(1979-1982), income taxes of owners of firms or businesses were reduced 70-90 percent for a period of 8-10 years and other benefits were also granted them in the four newly created industrial zones.¹¹

Another problem hindering and deforming the development of national industry is the high degree of its dependence on foreign capital investment, imported technology and foreign markets. The dependence of individual sectors on foreign capital is so great that they actually have been transformed into a unique exclusive complex that is effectively controlled by international monopolies. At the outset of the '70s, foreign owners controlled 99 percent of tobacco products, 90.9 percent of the glass, 84.3 percent of rubber products, 100 percent of petroleum products, 54.8 percent of the chemical products, 43.1 percent of the metal products and so forth.¹²

It should be emphasized that the industrial sectors and the export sector of agriculture under the control of foreign capital constitute the basis of the model of development introduced into Guatemala's economy over the course of many years. This model is meant to reproduce and deepen dependence on international capital and has nothing in common with the country's national interests or the interests of the Guatemalan people.

According to 1977 data, the total sum of foreign capital investment in the Guatemalan economy was estimated at 266 million dollars. Of these, 35.6 percent were invested in the processing industry, 21 percent in agriculture, 16.9 percent in trade, 11.1 percent in energy, gas and water supply, 6.8 percent in the mining industry and so on.¹³ At the same time, it must be noted that 75 cents of each dollar invested in the Guatemalan economy by foreign entrepreneurs belonged to American interests.¹⁴

In the second half of the '70s, the crisis of the traditional model of Guatemala's development became obvious. This was expressed not only in curtailment of the rates of growth of the national income but also in exacerbation of social conflicts that developed into an open struggle (including an armed one) of workers against foreign monopolies and the antipeople's regime protecting their interests. The continuing cooperation with foreign capital under conditions of a profound decline in the world capitalist economy is resulting in the growth of contradictions between individual groups of the national bourgeoisie. Dissatisfaction is particularly manifested among that portion of the dominant class which has remained outside the framework of the alliance with transnational corporations and is experiencing increasingly acutely growing economic pressure from them.

The "petroleum boom" that started toward the end of the '70s has perceptibly increased the antagonism of the groups of the local bourgeoisie, trying with the help of control over the extraction and export of petroleum to strengthen their positions in the economy and after that in the political life of the country. At the same time, the representatives of the ruling classes provide a basic stake for broad involvement of foreign capital, which in their opinion will make it possible to initiate the realization of a new and more stable model of development.

Mirages and Reality of the "Petroleum Eldorado"

Assessments appearing in the press of the deposits discovered in the north of the country (Departments of Quiche, Peten, Alta-Verapaz) differ significantly from each other, but most specialists believe that these regions contain significant reserves of "black gold." In the opinion of the director of the Secretariat for the Mining, Petroleum Industry and Nuclear Power Jorge Luis Monzon, potential deposits could amount to 2,400 million barrels. The importance of the discovered deposits is indirectly indicated by increased interest in Guatemalan petroleum by the leading corporations of the capitalist countries, which have at their disposal data on exploratory and prospecting drillings. At the same time, it should not be forgotten that the companies conducting the prospecting always tend to understate the obtained results.

The "petroleum fever" has served as a unique and most inviting signal for a new approach by foreign monopolies. The greatest activity in the development of petroleum bearing deposits is displayed by Basic Resources International, S.A., Shenandoah (U.S.A.), Hanna Mining Company, ELF-Aquitaine (France) and others. The dictatorial regime in its search for instant profit practically frittering away national property, providing concessions to foreign monopolies at preferential conditions to large areas in petroleum-bearing regions. Such concessions in the Department of Peten have already been obtained by Getty Oil Inc., Amoco Guatemala Petroleum Company, Texas Eastern Guatemala Inc., Monsanto Oil Company of Guatemala and others. In 1981 Texaco and Hispanoil discovered new deposits of petroleum.

The policy of the government leading to practically uncontrolled exploitation of the petroleum reserves is causing serious misgivings on the part of the country's patriotic forces which are decisively coming out in defense of its natural wealth. Critical comments addressed to the government are appearing with increasing frequency on the pages of the national press. Even LA NACION, a newspaper close to official circles, was forced to admit in this connection that "no one can be sure that the deposits (of petroleum--I.B.) are being worked on the scale announced by the companies."¹⁶

In April 1980, the first tanker, NEPHELE, (under the Liberian flag) left a Guatemalan port with 136,000 barrels of crude petroleum on board, taking a course to Louisiana. So, according to a statement of Guatemala's Chamber of Commerce, there began the conversion of the country into an exporter of petroleum and a "new era for the national economy" was opened.¹⁷

Of course, the discovery of the petroleum-bearing regions and the beginning of their commercial exploitation in themselves constitute an event of extreme economic importance, especially under the conditions of an unabating world energy crisis. But if one examines more attentively what is occurring to Guatemalan petroleum, it becomes clear that a new, more powerful "petroleum" enclave is being formed in the country. There has already been launched at full power the mechanism of imperialist enslavement whose operation was well adjusted over the course of many decades. The actions of the transnational petroleum corporation--shock detachments of neocolonialist expansion--are being increasingly more actively reinforced by international financial organizations, the

dominant positions in which are held by representatives of U.S. monopolist capital. The International Bank of Reconstruction and Development, the Interamerican Bank of Development, the Agency for International Development of the United States and a number of other organizations have stated their intentions of granting Guatemala during 1980-1982 more than one billion dollars for the financing of projects one way or another connected with petroleum.¹⁸

The reactionary military regime contrary to national interests is eagerly proceeding with expansion of cooperation with imperialist monopolies. This confirms in particular the signing of a contract by the government of Guatemala with the company Desarrollo de Autopistas y Carretas, 95 percent of whose shares belong to the Swiss Rothschild Bank, for the construction of a network of motor highways. They will girdle with a kind of belt 1,500 km in extent the entire country ("peripheral national belt").¹⁹ According to the terms of the contract, control over practically all the country's paved roads, including those roads of strategic importance to Guatemala to the chief ports on the Pacific and Atlantic coasts, is turned over directly to the company. All state lands along the route of the projected "belt" are turned over for full disposition by the company, while the costs of developing the territory contiguous to the motor highway have been assumed by the government of Lucas Garcia. The contract is operative till 31 December 1999, but the company has the right to extend it on the condition that it makes notification of this six months prior to the expiration of the basic time period.

Furthermore, an American company has been permitted to construct on the territory of Guatemala a segment of a gigantic petroleum pipeline intended for transferring petroleum obtained in Alaska from the west to the east coast of the United States (bypassing the Panama Canal whose parameters limit tankers' tonnage). The construction of this petroleum pipeline will not only bring significant additional profits to American monopolies through reduced transport costs; it will make it possible to establish their own bases throughout the entire length of the petroleum pipeline. According to the terms of the agreement, the pipeline and contiguous land will be under the control of a special administration appointed by the monopolies.

Thus the northern region of Guatemala, which is the most promising and richest in natural resources, has actually been completely sold out to foreign capital. In addition to the petroleum monopolies, foreign corporations, engaged in the working of mineral deposits, also operate here. Thus nickel and other minerals are mined by Ecsimbal, 80 percent of whose share belongs to Inco Ltd. and the rest to Hanna Mining Company and other foreign companies.²⁰

Additional favorable conditions for the expansion of foreign monopolies will be created by the carrying out of large-scale projects planned for the immediate future in the field of the economic infrastructure. During 1979-1982 it is planned to allocate for these purposes 48 percent of all capital investment provided by the four-year plan of national development.²¹ As shown by many years of experience, work in the field of the infrastructure results in gigantic profits for foreign monopolies and contractors, but it contributes in only a

small degree to the development of the national economy in view of the protracted period of recovery of payment for infrastructure items and weak integration with production structure. Moreover, they will require significant state outlays, which will lead to the further deterioration of Guatemala's position.²²

Growth of the state's foreign indebtedness, exacerbation of social conflicts, deterioration of the position of broad strata of the population and other negative phenomena--all these are the consequences of the policy of Guatemala's ruling circles of expansion of cooperation with foreign capital, the result of the forced introduction of a developmental model worked out by imperialist monopolies. The basic purpose of this model boils down to modernization of forms of neocolonialist dependence under present conditions. Being in no position to solve immediate economic problems facing the country, the large-scale national bourgeoisie and the reactionary army leadership are attempting to find a way out of the existing situation through intensification of repression against leftist forces and mass worker organizations. Their actions find support and approval among American monopolies and the present Washington administration. But the workers and progressive forces of Guatemala well understand what such "modernization" will cost the people and are not ceasing their struggle for implementation of deep social-economic changes.

FOOTNOTES

1. But the positions in the Guatemalan economy of the American Del Monte transnational corporation, which has forced out United Brands (formerly United Fruit Company), another U.S. monopoly, and specializes in production of bananas and other agricultural products, are as before quite firm.
2. QUARTERLY ECONOMIC REVIEW OF GUATEMALA, EL SALVADOR, HONDURAS. Annual Supplement 1981. London, 1981, p 11.
3. Doc. CEPAL/MEX/1038, 12 February 1981, pp 2, 10.
4. BID. Informe anual 1980. Washington, 1981, p 65.
5. BID. Progreso economico y social en America Latina. Informe 1979, Washington, 1980, p 274; QUARTERLY ECONOMIC REVIEW OF GUATEMALA, EL SALVADOR, HONDURAS, op cit, p 11.
6. For example, the area of just three of former President Garcia's estates comprise 52,000 hectares.--NOTICIAS DE GUATEMALA. Guatemala, No 2, 1977, p 24; EL PAIS, Madrid, 24 Sep 1980.
7. ALERO. Guatemala, No 1, 1979, p 79.
8. Ibidem, p 78.

9. This is a characteristic feature not only of industrial but also of agricultural production. Thus the main part of the rural population (68 percent), among which Indians predominate, is concentrated in the high mountain region of Altiplano. About half of the national territory (Department of Peten and the lowlands of the Atlantic coast) is extremely weakly developed. This almost inaccessible and sparsely populated region was until recently the least developed economic zone of the country. But the discovery here of significant petroleum deposits and the working of deposits of nickel ore and other minerals have transformed it into the most dynamically developing region in the country.
10. BID. Progreso economico y social en America Latina, 1980, p 281.
11. BANK OF LONDON AND SOUTH AMERICA REVIEW. London, No 5, 1979, p 297; No 8, 1979, p 486.
12. NOTES ET ETUDES DOCUMENTAIRES. Paris, No 4366-4367, 1977, p 51.
13. COMERCIO EXTERIOR. Mexico, No 3, 1978, p 296.
14. Diaz, Victor Quintana, "Inversiones extranjeras en Guatemala" [Foreign Investments in Guatemala]. Guatemala, 1973, p 136.
15. The company is registered in Luxembourg, and its founder, the Canadian engineer John Park, was one of the first to discover the Rubelsanto petroleum deposit in Guatemala, the profitable commercial reserves of which are estimated at 27.3 million barrels.--EL DIA. Mexico, 11 Dec 1979.
16. LA NACION. Guatemala, 10 Apr 1980.
17. OPOSICION. Mexico, 18 Jan 1981.
18. NOTICIAS DE GUATEMALA. Mexico, No 44-45, 1980, p 3.
19. Ibidem, pp 1, 7.
20. FINANCIAL TIMES. London, 2 Nov 1981.
21. BID. Progreso economico y social en America Latina, 1980, p 281.
22. Monetary gold stocks have been reduced from 1.3 billion dollars in 1978 to 273.2 million dollars in the middle of 1981.

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SKETCH OF JLP ECONOMIC ADVISER RAFAEL IZQUIERDO

Responsible for Administration's Policy

Mexico City PROCESO in Spanish 24 May 82 pp 12-15

[Article by Carlos Ramirez: "The Strategist of the Crisis, Rafael Izquierdo, Relieved of Responsibility"]

[Text] Spanish by birth, but Mexican by adoption and residence, Rafael Izquierdo, President Jose Lopez Portillo's personal adviser, is the economic cabinet's headache. The reason is this: Izquierdo is the one who has been responsible for conceiving and devising the economic policy during this 6-year period (from the boom to the crisis), but the state secretaries have had to assume the burden of the failures and explanations.

Izquierdo's liability has not been slight. He shaped the Alliance for Production, and the biannual strategy for recovery, consolidation and takeoff; he determined the plan to spur investment and growth, at the cost of wages and living standards of the majorities; he was responsible for suggesting the policy on public debt, which sought state revenue through indebtedness and not through taxation; he was inclined toward backing for business owners; he devised an economic policy which moved from a boom for the few to a crisis for the entire country, and acted as a trusted liaison (apart from institutional duties) with the International Monetary Fund, the World Bank and the Inter-American Development Bank.

Through Izquierdo, the economic policy for the 6-year period had an author and an intention. In fact, it was the implementation of a new stabilizing development wherein the economic means were transformed into ends, and the goal was economic growth at the cost of sacrifice for society and the people. In this instance, there were precedents: Izquierdo was head of the team which, in 1969, drafted the speech wherein the Mexican economic miracle of the 1960's: stabilizing development, was introduced to the society. The forum was the appropriate one: the meeting of the International Monetary Fund and the World Bank.

Changes have come and gone in the government's economic area, but Izquierdo has remained unmovable. His only interlocutor is the president of the republic, and negotiations and missions of great importance to the country are carried out in his name. Moreover, from the office of the president's personal adviser come decisions and suggestions involving the country's economic fate. It is the state

secretaries who have to implement them and carry them through the bureaucratic circuit of the federal administration.

Furthermore, the failures do not concern Izquierdo, because they evade his responsibility. He is capable of going over the heads of the state secretaries to devise policies, but he does not appear when it is time for explanations. In the devaluation of the peso, the strategy of removing the Bank of Mexico from the exchange market was his idea, but it was up to the secretary of finance, David Ibarra Munoz, and the director of the Bank of Mexico, Gustavo Romero Kolbeck, to try to explain the reason for this measure to the public.

Strictly speaking, Rafael Izquierdo is the supersecretary of economy. It is his mission to shape the nation's economic policy; he has been engaged in this work with President Lopez Portillo from the presidential campaign of 1976 to the devaluation of the peso. According to Izquierdo, the solution for the country (summarized in the three biannual phases) was viable, possible and close, because there was oil and international credit. He claims that the crisis is due to those who failed to implement his suggestions, plans and programs wisely and accurately.

Despite obstacles, setbacks and mishaps through the 6-year period, Izquierdo still remains in his post. He is the most trusted economist of the president of the republic, regardless of failures. Little escapes the presidential adviser's control, and it consists of matters involving political and social commitments. The president's decision to increase wages in March (30-20-10 percent) was an emergency policy measure to compensate (although in a hasty, fleeting and limited manner) for the workers' sacrifice over a period of 6 years, particularly when the country was experiencing extremely uncertain electoral situations. This was one of the very few times when a need of the society and people was given precedence over Izquierdo's schemes.

In fact, the position of personal adviser has major political status. Izquierdo's omniscient presence in the economic cabinet has been revealing: it is never absent. He has even cast votes concerning decisions, in addition to the fact that President Lopez Portillo consults with him (apart from the cabinet and over other levels of authority) regarding any important decision. His presence was quite evident in the matter of GATT. To be sure, his vote was in favor of Mexico's entry.

A Rather Unconventional History

It is usually difficult to track down Rafael Izquierdo. An intelligent, perspicacious man with a great ability in the area of economic techniques, he has not left behind any essays or writings. The last important one dates back to 1964, when he wrote on "Protectionism in Mexico," a work which was included, in 1972, in a book coordinated by his friend, Leopoldo Solis (it circulates with the stamp of the Economic Cultural Fund). Nevertheless, his activities in the financial bureaucracy have lent him his style and concept of the economy.

Izquierdo has always been a winner. During the 1960's, he helped to shape the stabilizing development. Years later, he became associated with Lopez Portillo, especially in 1972, when the latter entered the Secretariat of Finance. At

Izquierdo's behest, Lopez Portillo formed a Finance-Bank of Mexico liaison group (dissociated from the institutional relations) which sought to lend the financial area of the government operativeness. From that group there emerged policies which, at the time, ran counter to the decisions of President Luis Echeverria, particularly on wages and public spending. They opted for lower wages and less public spending to curb inflation and the external sector.

The liaison group also included the members of the team which wrote the analysis that structured the stabilizing development: Luis Cosio, Antonio Soyano and Antonio Chumacero. The latter is now coordinator of the consulting board of the National Association of Economists, and Izquierdo's confidante within the sector of economists which holds a critical dialog with the government.

Although there are but few written essays, Izquierdo's ideas are detectable. In his view, the economy (and hence the economic policy of a country) is the relationship between ends and means, apart from political and social issues which (from his standpoint) have little effect on its concepts. Hence his theoretical equipment comes from the neoclassical trends of economics which bear a direct relationship with Milton Friedman and monetarism. This is also why the strategy for the 6-year period has been the determination of goals and results based on purely economic decisions.

According to Izquierdo, economic policy appears to grow in a vacuum, in the abstract. The lack of a social, political and popular context has led to the adoption of measures which necessarily have serious social and political costs. In this context, the economy is usually a prescription book: against inflation, less money in circulation and less public spending; against the crisis in the external sector, growth; and to grow, stimulating the economy at the price of generating inflation. In the end, the prescription book has no answers for problems stemming from growth at all costs, nor for the needs of the national majorities.

But that was the least of it. He had the trust of the man who was to be president of the republic. On 20 September, Izquierdo wrote on his agenda: "We now have a candidate." He was among the first to know that PRI [Institutional Revolutionary Party] would unveil Lopez Portillo 3 days later. From that time onward, he was associated with the candidate in a privileged position: as special adviser on economic matters, dissociated from the traditional, bureaucratic mechanisms set up in the advisory groups. At the present time, his influence on the president is greater than that of Jose Antonio Ugarte, chief of the other advisers.

During the period of Lopez Portillo's presidential campaign, Izquierdo already had special status: his dealings with the candidate were direct. On one occasion, in the Federal District, IEPES [Institute of Political, Economic and Social Studies] organized a meeting on the financing of development. Participating in it were economists who, at the time, were voicing their concern over the increasing volume of the foreign debt, and proposing internal reforms (tax, parastate and financial) to provide the state with sound, growing revenue. Izquierdo's participation was expected, because his reputation as an adviser had been established. But Izquierdo refused any confrontation. At that meeting all he said was that, "The problem of financing is very complex, very difficult and more complex and intricate than what has been stated here." That was all. Of course, he later expressed his opinion to the candidate, but in private.

Thereafter, he had a certain amount of exclusiveness about participating, primarily because the candidate was not an economist and because his tenure in the Finance Secretariat had been for political and not technical training. This is why Izquierdo's position was privileged, even better than that of the then director of IEPES, Julio Rodolfo Moctezuma Cid. To be sure, in November 1977 Izquierdo was consulted about the Tello-Moctezuma dispute, which ended with the resignation of the two officials.

After the presidential campaign, Izquierdo's consultation expanded. His team, and particularly he personally, has had a greater economic influence on the president than any other. The plan for economic policy emerging from Izquierdo and his team led the country into the crisis. The most important proposals of the president of the republic, conceived in the offices of his advisers, did not have the anticipated results, because they lacked a social and political context. For example, the expedient of the Alliance for Production, which the president turned into a national and popular one, did not attain any of its goals; on the contrary, the state's action diminished and yielded to the plans of the private sector, despite the vast financial resources resulting from oil.

Izquierdo trusted in the oil. He even managed to obtain acceptance of his proposal to convert Mexico into an international financial center (as Gustavo Romero Kólbeck announced in 1978), anticipating that the income from oil would create a surplus in the balance of payments by 1981-82. What there has been in these years is a deficit exceeding \$10 billion, a factor which exerted pressure for the devaluation of the peso.

Izquierdo participated in oil affairs, dissociated from Jorge Diaz Serrano. In 1978, when Mexico was gaining access to the oil market and there were certain indicators showing that the demand could not increase at the same rate as prices, Izquierdo was appointed President Lopez Portillo's personal representative to meet with rulers of the oil-producing countries of the Middle East. A short newspaper article, lost in one of the Federal District papers, noted this fact, and remarked that the trip had not proved constructive, because some countries did not receive the Mexican envoy favorably.

Other matters were handled by Izquierdo, either directly or indirectly. For example, he participated in the devising of the Total Development Plan (some pages of which he knows by heart, according to a public admission), and he intervened in the National Industrial Development Plan. He also participated in the designing of the Law on Agricultural-Livestock Development, aimed at increasing agricultural production.

In the GATT matter, he implemented his views expressed in the essay "Protectionism in Mexico": according to him, the borders had to be opened to modernize the country, without fear of imports or exports. This theory was assumed by the government in 1978, when the opening of border began, but it did not last long: at the end of 1980, they had to be closed gradually, and in 1981 it hastened to reestablish import permits, because the balance of payments had been deteriorating too much with the importing of luxury products, and many business owners could not stand the competition.

An Unmovable Adviser

He took part in other strategies: the famous basic products program, which brought no results in 5 years and which was offered in March as a fundamental part of the post-devaluation program. Izquierdo's strategy was as follows: to foster the production of basic products by business owners. For this purpose, the plan called for summoning the business owners to set the price of animal crackers, which were the most popular, and it was set. On the other hand, there would be free prices for other luxury crackers. The business owners accepted the deal, but later engaged in producing expensive crackers. The animal crackers did not return to the market. Izquierdo blamed the Secretariat of Commerce for the failure.

During the past 6 years, Izquierdo has also been the president's trusted representative at special meetings and on special missions. The officials in the economic area have been assigned institutional tasks. Izquierdo was and is the spokesman for Mexico with the International Monetary Fund and the World Bank, and he is charged with working with the missions that write the annual reports on the performance of the Mexican economy. He also attends special meetings as a presidential representative or as Mexican observer, especially those dealing with economic matters.

His participation internally has increased, despite the fact that the majority of his strategies have failed. In fact, every national economic decision goes through him. When a group of officials was seeking Mexico's entry into GATT, and when the national debate was at its height, Izquierdo had his own opinion. The bad part about it is that he did not attempt to give his opinion in the public debate, but rather sought direct channels with the president to voice his views. The circumstances forced him to state his position: at an expanded economic cabinet meeting (there were state secretaries and some other officials with important opinions for the president), the vote which gave the final result tended to be negative. Izquierdo had to vote "yes" publicly. So there was no occasion for discussing the matter in private with Lopez Portillo. Izquierdo continued to attend the economic cabinet meetings, without a vote, but with a privileged voice.

The problem of the devaluation in 1982 put Izquierdo in the center of decisions again. During the second half of 1981, the secretary of finance, David Ibarra Munoz, proposed a more accelerated slide for the peso to prevent the arrival of a sudden devaluation. The proposal was rejected. Izquierdo advocated a curbing of inflation, adopting decisions such as those proposed by the oldest monetary theory: to reduce money in circulation and public spending. The president's decision was to postpone both, until events became precipitous at the end of December, in January and in February.

When the government opted for the Bank of Mexico's withdrawal from the exchange market, many officials in the financial area frowned. The justification expressed in the document and the option decided upon would prove (as they actually have) counterproductive. But the problem did not end there: In fact, Izquierdo was the one responsible for the manner of dealing with the problem of the peso-dollar quotation, and participated in the version of the document released on the night

of 17 February. Izquierdo acted on presidential instructions, over the head of the finance secretary, who is responsible for this type of decision. But the director of the Bank of Mexico, Gustavo Romero Kolbeck, was also displaced by a member of the presidential adviser's team: Leopoldo Solis, deputy director general of that institution, with whom Izquierdo shares a duplex residence in Valle de Bravo.

The day following the night of 17 February, David Ibarra Munoz received several telephone calls at his home and his office, asking him for an explanation of the document. The finance secretary declined, because he had been cast aside. The economic cabinet met later to analyze the situation. The most noteworthy absence was that of the finance secretary. Ibarra Munoz sent a card to the president of the republic excusing himself for his absence. The reason: he could not explain a document with which he had nothing to do. The president read the card aloud and the meeting began in the absence of the one in charge of national finances.

Ibarra Munoz and Romero Kolbeck were excluded from the handling of economic policy. Hence the aloof, indifferent attitude of Ibarra Munoz at the press conference on 19 February, when the first adjustment program was announced. Hence the detached, laughing and even ridiculing attitude of Romero Kolbeck, in statements made on television: He really did not know when the Bank of Mexico would return to the exchange market because he, as director, had been excluded from the decisions.

Up until the arrival of Jesus Silva Herzog in the Secretariat of Finance, the responsibility for the post-devaluation was in the hands of the presidential adviser. Even upon the arrival of the new finance secretary, Izquierdo succeeded in upholding certain theories regarding the post-devaluation policy. Perhaps the most important intervention was his participation in the document whereby the Bank of Mexico rejected the control of exchange. The analysis is isolated, and the conclusions are inferred from certain political and ideological fears rather than real circumstances related to the financial situation; in addition to which there is a certain fatalistic tone in the comment on corruption and the evils of the system. Most especially, the document reflects a certain deification of the market, because only the forces of supply and demand will resolve the critical status of the peso.

To date, Rafael Izquierdo is still retaining his privileged position. The five post-devaluation packages (with contradictory measures, some counteracting others, which are limited and isolated) have had to go through the presidential adviser. Although the Finance Secretariat authorities are in the critical state of being in agreement with a president of the republic and with a presidential candidate, in any event, Lopez Portillo's representative is still Rafael Izquierdo, an intellectual of the economy, a thinker who conceptualizes and designs; there, the state secretaries have to explain the crisis.

Izquierdo Quoted

Mexico City PROCESO in Spanish 31 May 82 pp 14-15

[Article: "To Rafael Izquierdo, the Economy Is Above Justice"]

[Text] A cautious man, Rafael Izquierdo speaks little. He prefers the job of adviser, dissociated from any overt, public participation. In 1980, when he was

asked about the extent of the planning in the presidential changes, Izquierdo commented: "Futurism is like photography; the one who moves does not come out." Hence he prefers not to move, so as always to come out in the photographs.

But the chances or the requirements are missing. In October 1980, Izquierdo was President Lopez Portillo's personal representative at the series of lectures on "Economy, Energy and Development," organized by Mexican Petroleum and the Mexican Petroleum Institute. There, he discussed the state's economic policy and (something unusual) answered questions from the attendees. Although his remarks were addressed to the area of generalities and the concerns of a state as unique as the Mexican one (owing to its historical experience in formation), Izquierdo cited facts which typify his thinking: putting the immediate economic needs over the commitments related to justice and equity, although in his general concern he spoke of hypothetical equalities.

Although he is concerned because the distribution of income "leaves a great deal to be desired," because "two fifths of the families have a real income below the minimum wage," and because "the 20 percent of the population that is rich receives 50 percent of the income," matters must be viewed realistically. Hence, while the Total Plan mentions an equitable distribution of income through the tax policy, basic products for popular consumption, a gainful wage and an increase in real wages, according to Izquierdo, "the fundamental aspect of the distribution of future income consists of two things: that people have full-time, secure employment, and the curbing of inflation." The justification came later.

Although he is concerned because the economy has caused social and regional problems and problems of unemployment, its main aspect is operating in different directions: for the present, to grow and curb inflation. He claims that, for this purpose, it is necessary to take advantage of the oil, and not lose sight of the dimensions of things: If the growth should be 8 percent, "we shall not attempt to go from 8 to 10 percent, because we shall not succeed in doing so."

To Izquierdo, the egress of capital in the form of profits remitted by foreign firms established here is not bad. "If he takes profits from the country, obviously (the owner) made investments, has profits and is taking away the profits. It is part of the purpose of investment."

Regarding the agrarian problem, Izquierdo acknowledges certain commitments of the Mexican Revolution. Nevertheless, in his analysis the important thing is to view the real situation. What occurred from 1940 to 1965, when agricultural production was doubled, was "the great success of agrarian reform in Mexico, in terms of production. I am not talking in political and social terms, but in terms of production."

In this lecture, Izquierdo discussed the control of exchange, in terms that he was to use a year and a half later. "The only way of preventing savings and capital from leaving the country is to establish a control of exchange. There are many countries which have it: for example, Brazil and Spain; but none of them has the border that we have with the United States." According to the presidential adviser, the control of exchange would produce a black market among the 10-15 percent of Mexicans who live in the zone. "The black market would be infinite." The tourist foreign currency could not be controlled.

"What would we tell the Mexicans in the border zone? 'You cannot take out dollars if I don't allow you to?' It is most likely that they would go to the other side and purchase the dollars there." (This view abounded throughout the Bank of Mexico's document to reject the control of exchange which was issued 2 weeks ago.)

He added: "I believe that if we in Mexico attempted to tell the Mexicans on the border: 'You cannot exchange dollars for pesos and pesos for dollars when and where you wish,' we would create a control problem with all the ramifications that I do not care to discuss (corruption in particular), which would be unmanageable. I think that it would be better for us to adapt ourselves to our policies: just as we adapted to freedom of passage, to adapt to freedom of exchange. It would be more beneficial for the country than to attempt a control measure."

Regarding the problem of imports, he stated: "I believe that knowing where daring or fearing to import lies depends greatly on temperament. I am convinced that we Mexicans can do what we wish or what we set out to do, but not immediately; and I have no fear of supplying myself elsewhere (purchases from abroad), so long as I am attaining my goal, and I don't think that I have any other answer for that. The answer, I believe, is sociological."

Finally, he discussed oil. Although it is feasible to diversify exports, "being an exporter of one product does not bother me. What I am grateful to Lazaro Cardenas and the Virgin of Guadalupe for, as well as to the oil producers, is that we have oil surpluses."

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CSO: 3010/1746

BRIEFS

SANITATION AGREEMENT WITH FRANCE--Acapulco, Guerrero, Mexico, 22 Jun (NOTIMEX)--
French Agriculture Minister Edith Cresson and Francisco Merino Rabago,
Mexico's secretary of agriculture and hydraulic resources, [as received], today
signed a cooperation agreement in the area of animal sanitation to facilitate
the trade of animals and animal products between the two countries. The
eight-article agreement is reportedly part of the technical and scientific
cooperation that both Mexico and France have been developing for some time.
The granting of facilities for the use of Mexican and French laboratories
and clinics for the development of bilateral research projects and the
exchange of information on infectious and parasitic diseases are among the
aspects included in the agreement. [FL220210 Mexico City NOTIMEX in Spanish
2250 GMT 22 Jun 82 FL]

CSO: 3010/1781

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